

Message Text

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ACTION NEA-09

INFO OCT-01 ARA-06 EUR-12 ISO-00 FEA-01 AEC-05 AID-05

CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00 EB-07 FPC-01

H-01 INR-07 INT-05 L-02 NSAE-00 NSC-05 OMB-01 PM-03

RSC-01 SAM-01 OES-03 SP-02 SS-15 STR-01 TRSE-00

FRB-03 PA-01 PRS-01 USIA-06 /107 W

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R 211450Z JAN 75

FM AMEMBASSY TRIPOLI

TO SECSTATE WASHDC 1912

INFO AMEMBASSY ABU DHABI

AMEMBASSY ALGIERS

AMEMBASSY BEIRUT

AMEMBASSY CAIRO

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY MOSCOW

AMEMBASSY PARIS

AMEMBASSY TEHRAN

AMEMBASSY TUNIS

AMEMBASSY CARACAS

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E.O. 11652: GDS

TAGS: ENRG

SUBJECT: REVIEW OF LIBYAN OIL SCENE

1. SUMMARY: DESPITE LOWERING OF BUY-BACK PRICE AS OF JAN 1 AND LIFTING OF BAN ON EXPORTS TO U.S., LIBYAN PRODUCTION CONTINUES ITS STEADY DROP. WHILE OVERALL PRODUCTION HAS BEEN DECLINING, LIFTINGS OF WHOLLY-OWNED GOVT CRUDE ARE RISING. THIS WOULD SEEM TO BE BECAUSE OF DISGUISED PRICE BREAKS. FURTHER ACTION WILL BE NEEDED IF GOVT IS TO GET FOREIGN OPERATING COMPANIES TO INCREASE LIFTINGS. MANAGE-
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MENT PROBLEMS ARE INCREASINGLY SERIOUS, AND POLITICAL

INTERFERENCE WITH OPERATIONS OF COMPANIES HAS BECOME ENDEMIC.
REGIME MUST BE FEELING PINCH. SOVIETS, WHO EXPECT PAYMENT
FOR ARMS THEY HAVE DELIVERED, ARE PROBABLY LOOKING ON WITH
AN ANXIOUS EYE TOO. END SUMMARY.

2. IN RESPONSE TO CONTINUING TREND OF FALLING PRODUCTION
DURING LAST QUARTER OF 1974, LIBYA WAS FORCED TO TAKE TWO
STEPS IT HAD BEEN RESISTING: (A) BUY-BACK PRICE FOR CRUDE
WAS LOWERED JAN 1 TO BRING IT MORE INTO LINE WITH THE GULF
TO \$11.86 PER BARREL, AND (B) BAN ON EXPORTS TO U.S.
REFINERIES IMPOSED AFTER OCT WAR WAS FIRST PARTIALLY LIFTED,
AND THEN COMPLETELY REMOVED IN LATE DEC. (NO ANNOUNCEMENT
HAS BEEN MADE OF LIFTING OF EMBARGO, AND OIL COMPANIES
OPERATING HERE HAVE HAD TO TRUST TO VERBAL ASSURANCES THAT
THEY ARE FREE TO SEND SHIPMENTS U.S.) DESPITE THESE MOVES,
WE UNDERSTAND DOWNWARD SLIDE WAS CONTINUING IN FIRST TWO
WEEKS OF JAN. ACCORDING TO ONE INDUSTRY SOURCE, PRODUCTION
WAS RUNNING AT ONLY SLIGHTLY OVER 750,000 BARRELS PER DAY,
COMPARED WITH 850,000 BPD IN DEC, AND 975,000 IN NOV.

3. SIGNIFICANTLY, WHILE OVERALL PRODUCTION HAS BEEN DECLINING,
THAT OF THE NATIONAL OIL COMPANY'S WHOLLY-OWNED GOVT CRUDE
MAY HAVE REACHED 300,000 BPD. ALTHOUGH WE WILL NOT
HAVE FINAL FIGURES FOR SOME TIME, IT IS REASONABLE TO
ESTIMATE THAT OVER ONE-THIRD OF LIBYA'S TOTAL PRODUCTION IS
BEING SOLD OUTSIDE TAX-PAID COST FLOOR MECHANISM. INDUSTRY
SOURCES WITH WHOM WE HAVE SPOKEN SUGGEST THAT GOVT OIL IS
MOVING ONLY BECAUSE DEVICES SUCH AS LONG-TERM CREDITS,
REBATES, AND FREIGHT DISCOUNTS ALTER \$11.86 BUY-BACK PRICE
AT WHICH IT IS SUPPOSED TO BE SELLING. THERE SEEMS TO BE
NO OTHER WAY TO ACCOUNT FOR RISE IN NOC LIFTINGS AT A TIME
WHEN OTHER COMPANIES ARE ENCOUNTERING LIBYAN RESISTANCE,
AND SAY THEY ARE OPERATING IN THE RED. COMPANIES HAVE
CRIED WOLF TO LIBYANS OVER PRICES SO OFTEN IN PAST THAT
LIBYANS ARE WARY OF CREDITING THEIR COMPLAINTS. (SO ARE
WE.) BUT PROOF, AS INDUSTRY SOURCES REMIND US, IS IN
LIFTINGS, AND THEY ARE DOWN.

4. THUS IF TREND OF FALLING PRODUCTION IS TO BE HALTED,
AND ASSUMING REGIME WANTS TO DO SO (WE DO), FURTHER ACTION
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WILL HAVE TO BE TAKEN IN WEEKS AHEAD. WE ANTICIPATE THERE
COULD BE PRICE CUTS, PERHAPS IN DISGUISED FORM OF LOWERING
LOW SULPHUR FREIGHT PREMIUM, NOW SET AT \$1.40 PER BARREL.
LIBYANS MAY ALSO WANT TO REVIVE IDEA OF PRO-RATA PRODUCTION
CUTS BY ALL OPEC MEMBERS, CLAIMING THEY ARE BEARING BURDEN
DISPROPORTIONATELY; THEY COULD DO THIS AT JAN 24 OPEC
MEETING IN ALGIERS. WE WOULD EXPECT ANY SUCH MOVES
TO BE TAKEN ONLY AFTER CONSULTATION WITHIN OPEC.

5. MEANWHILE, MANAGEMENT PROBLEMS WITHIN LIBYAN INDUSTRY ARE BECOMING INCREASINGLY SERIOUS. A CRISIS MAY STILL BE SOME WAY OFF, BUT RELATIONS BETWEEN LIBYAN CHAIRMEN OF OPERATING COMPANIES (51 PERCENT GOVT OWNED) AND U.S. MANAGERS, WHO STILL MAKE IMPORTANT DECISIONS BEHIND SCENES, ARE VERY STRAINED. ONLY CONSPICUOUS EXCEPTION, THE CAPABLE AND ENERGETIC LIBYAN CHAIRMAN OF OASIS GROUP, WAS RECENTLY FORCED OUT OF OFFICE AFTER DISPUTE WITH POLITICIZED CABAL OF LIBYAN EMPLOYEES, IN WHICH PETROLEUM MINISTER MABROUK FAILED TO BACK HIM UP. (HE HAS BEEN REPLACED BY OMAR AL-MUNTASSER, FORMERLY UNDERSECRETARY OF MINISTRY OF PETROLEUM, AND MUNTASSER HAS IN TURN BEEN REPLACED AS UNDERSECRETARY BY MUSTAPHA ZARAYK, AN ACCOUNTANT TYPE.) LESSON OF THIS WILL NOT BE LOST ON OTHER LIBYAN MANAGERS, WHO WILL BE EVEN MORE VULNERABLE THAN THEY HAVE BEEN TO POLITICAL PRESSURES FROM ABOVE AND BELOW. RESULT OF THIS UNHAPPY DIVIDED MANAGEMENT SITUATION IS THAT LONG-RANGE PLANNING IS NEGLECTED, INVESTMENT DECISIONS ARE NOT MADE, AND MAINTENANCE SUFFERS. POLITICAL INTERFERENCE WITH OPERATIONS OF OIL INDUSTRY HERE HAS BECOME ENDEMIC, AND THIS DOES NOT AUGUR WELL FOR FUTURE.

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6. WHAT YOUNG ARMY OFFICERS WHO RUN LIBYA THINK OF THIS GLOOMY PICTURE IS HARD TO JUDGE. ONE THING THEY MUST HAVE LEARNED IN FIVE YEARS OF POWER IS HOW TO READ A BALANCE SHEET, AND THEY MUST BE SERIOUSLY CONCERNED AT CONTINUED DOWNWARD SLIDE IN PRODUCTION. LIFTING OF EMBARGO ON U.S. WAS UNDOUBTEDLY BITTER PILL FOR QADHAFI TO SWALLOW. AT CERTAIN POINT, WHICH IS VERY ROUGHLY ESTIMATED HERE AS ABOUT ONE MILLION BARRELS PER DAY AT CURRENT PRICES, GOVT EXPENDITURES ON ARMS, IMPORTS AND DEVELOPMENT PROJECTS EXCEED INCOME. WITH ESTIMATED FOUR BILLION DOLLARS IN RESERVES, REGIME IS IN NO IMMEDIATE TROUBLE, CONFIDENTIAL

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BUT IT MUST BE FEELING THE PINCH.

7. SOVIETS MUST BE WORRIED TOO, SINCE PAYMENT FOR LARGE ARMS ORDERS THEY CONTINUE TO DELIVER DEPENDS ON LIBYAN OIL REVENUES. WE KNOW OF INSTANCE OF YOUNG SOVIET COMMERCIAL OFFICER ANXIOUSLY FISHING FOR INFO FROM WESTERN DIPLOMAT ABOUT HOW LONG LIBYANS USUALLY TAKE TO PAY FOR THEIR PURCHASES.

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